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As Rents Rise, Is It Time to Buy?

Description

As the nation's home ownership rate shows signs of creeping back up, so too does the average monthly rent paid by those who don't yet own their homes. With that in mind, this article reviews key considerations for those considering making the transition from renter to owner.

The number of Americans who own their home increased modestly during the third quarter, yet remained below the level recorded one year earlier. The seasonally adjusted home-ownership rate rose to 66.1% from 66%; it stood at 66.7% during the third quarter of 2010. The rate approached 70% during the recent housing boom.

The rental vacancy rate rose to 9.8% from 9.2% in the second quarter, although it was down from 10.3% year-over-year. The national rental rate climbed to $1,004 in the third quarter, up from $981 one year earlier.

For today's renters, low interest rates continue to create an ideal opportunity to purchase a first home. Even if interest rates begin to creep upward, starting out with a solid understanding of mortgages could help you identify the best deals and save you thousands of dollars over the years. For example, if a mortgage has a fixed rate, it means that you'll pay the same interest rate during the entire life of the loan; the interest rates on an adjustable-rate mortgage may vary from year to year. Here are some additional factors to consider:

- **Shorter terms = lower rates, but higher payments.** The "term" of a mortgage is the amount of time you have to pay off your loan. For example, a mortgage with a 15-year term requires to you repay your entire debt, plus interest, within 15 years. In general, shorter-term mortgages offer lower interest rates than longer-term loans. But shorter-term mortgages also require you to make higher monthly payments in order to meet the more aggressive schedule.
- **Points are up-front fees.** Some lenders may want you to pay "points" when you sign a mortgage. A point is essentially a fee equal to 1% of the value of the mortgage. For example, three points on a $100,000 mortgage translates to $3,000. Your willingness to pay points may help you negotiate a lower interest rate, but that decision should depend on how long you plan to own the property, and how long it would take for your lower monthly payments to compensate for the additional up-front expense.
- **Prequalifying can give you a head start.** Prequalifying for a mortgage, which involves working with a lender before you find a home to determine how much you'll be able to borrow, has important benefits. It lets you focus on houses you know you can afford, and it may save precious time once you decide to make an offer.
- **Debt makes a difference.** Lenders look at something called your "debt to income" ratio to determine how much mortgage you can afford. In general, no more than 28% of your monthly income should go toward housing expenses; overall debt shouldn't consume more than 36% of income. However, lenders have the flexibility to make case-by-case decisions.

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